



CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

Press Release

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Expert Advisors Release Final Cap-and-Trade Report

*Recommendations Intended to Complement California's
Ongoing Efforts to Reduce Emissions*

SACRAMENTO – Today, the 14-member Market Advisory Committee released the final report of recommendations on the design of a cap-and-trade system to reduce greenhouse gas emissions in California. The 100-plus-page report outlines the various opportunities and challenges of different design elements in an emissions trading program.

"In order to meet California's aggressive greenhouse gas targets, we're going to need a comprehensive approach to get the most reductions, in the quickest timeframe, and at the lowest cost," said Winston Hickox, chair of the Committee. "I'd like to thank the many members of the public who submitted insightful comments throughout the development and refinement of the final report. I trust that this important dialogue will continue as the recommendations of this committee are handed over to the Air Resources Board for consideration."

The Committee's final report will be submitted to the Air Resources Board, the agency responsible for implementing the Global Warming Solutions Act. Next month, members of the Committee will present the key findings of their report before members of the Board at their July hearing in Sacramento.

Lawrence Goulder, Shuzo Nishihara Professor in Environmental and Resource Economics at Stanford and vice chair of the Committee explained, "The Market Advisory Committee recognizes that a greenhouse gas cap-and-trade program can be an important part of the complete set of greenhouse gas mitigation strategies envisioned by the Global Warming Solutions Act, including regulatory, incentive based and alternative compliance mechanisms." He added, "I'm extremely pleased with our final product and attribute its thoughtful and thorough content to the hard-work, dedication and expertise of the Market Advisory Committee members."

The Market Advisory Committee (MAC) was created by the Secretary for Environmental Protection, Linda Adams, and includes national and international experts who have backgrounds in economics, environmental policy, regulatory affairs and energy technologies. For more information on the MAC and to view the full report go to http://www.climatechange.ca.gov/policies/market_advisory.html.

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Key Recommendations from the Report

- ***Eventually incorporate all major GHG-emitting sectors of the economy into the cap-and-trade program.*** Especially at the outset, the ARB will likely need to evaluate the practical constraints imposed by data availability, management capacity, administrative complexity, and transaction costs, but all major GHG-emitting sectors should be eventually incorporated.
- ***Take a first-seller approach to capping emissions associated with electricity.*** California faces special challenges in reducing emissions from the electricity sector because of the quantity of imported electricity generated from coal. Under a first-seller approach, the entity that first sells electricity in the state is responsible for compliance. Within California, the owner or operator of a power plant is the first seller and would be required to meet the cap on emissions. For imported power, the first seller is typically an investor-owned or municipal utility or wholesale power marketer.
- ***Use a combined approach of free allocation and auctioning of allowances.*** The Committee recommends a mixed approach of initially auctioning and freely allocating allowances, and increasing the percentage auctioned over time. The Committee recommends the state retain flexibility to freely allocate some of the allowances for the purposes of stabilizing price impacts, particularly on low-income consumers, and managing competitiveness issues for California firms, particularly in the near term.
- ***Allow offsets, both within and outside state borders, in a cap-and-trade program.*** Emission reductions by sources not included in the cap-and-trade program can be used to assist in meeting California's 2020 emission reduction requirement, reduce costs and increase flexibility through the use of offsets. However, the Committee recommends the use of rigorous criteria to ensure high-quality offsets.
- ***Provide linkage opportunities for a California cap-and-trade program with similar policy initiatives in other jurisdictions.*** The Committee believes these benefits can be achieved without sacrificing environmental integrity or equity. In order to actively promote a global greenhouse gas market, California should encourage linkages with other mandatory GHG cap-and-trade systems.

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